

Message Text

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ORIGIN EUR-08

INFO OCT-01 SS-14 ISO-00 EB-04 NSCE-00 TRSE-00 L-03
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DRAFTED BY EUR/WE:EMROWELL:MS/SLU
APPROVED BY EUR:REBARBOUR
EB - MR. HORMATS (SUB)
NSC - MR. HUNTER (SUB)
TREASURY - MR. SYVRUD (SUB)
-----063189 110115Z /64
O 110046Z MAR 78
FM SECSTATE WASHDC
TO AMEMBASSY LISBON IMMEDIATE

C O N F I D E N T I A L STATE 062983

LIMDIS

E.O. 11652: GDS

TAGS: ECIN, EFIN, PO

SUBJECT: GOP-IMF NEGOTIATIONS

1. IN SEPTEL SENT TODAY (MARCH 10) EMBASSY'S VIEWS ARE
REQUESTED REGARDING PROPOSED GUIDANCE TO U.S. EXECUTIVE
DIRECTOR OF IMF.

2. OUR GOAL IS TO OBTAIN THE MOST EFFECTIVE STABILIZATION
PROGRAM POSSIBLE CONSISTENT WITH THE LIMITS OF POLITICAL
TOLERANCE IN PORTUGAL, INCLUDING THE NEED TO RETAIN
PORTUGUESE SUPPORT FOR THE PRESENT GOP AND ITS POLICIES.

3. IN THE FINAL ANALYSIS WE BELIEVE THE GOP WILL BE THE
ULTIMATE JUDGE OF WHAT THE POLITICAL TRAFFIC WILL BEAR.
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WE WILL RELY ON YOU TO GIVE PROMPT NOTICE WHEN, AS THE
STANDBY NEGOTIATIONS PROGRESS, YOU THINK THE IMF HAS
PROPOSED MEASURES BEYOND WHICH IT WOULD BE POLITICALLY
IMPRUDENT TO GO. YOU SHOULD NOT REPEAT NOT, OF COURSE,
IMPLY TO GOP THAT YOU ARE CONVEYING SUCH A VIEW TO WASHING-
TON OR THAT WE WILL INTERCEDE WITH THE IMF.

4. WE WOULD ALSO APPRECIATE ANY SUGGESTIONS THE EMBASSY MAY WISH TO MAKE REGARDING WAYS TO MAKE EFFECTIVE ECONOMIC MEASURES MORE TOLERABLE POLITICALLY. FOR EXAMPLE, ADMINISTRATIVE ADJUSTMENTS IN THE PRESENT MULTI-TIER INTEREST RATE SYSTEM MIGHT BE LESS OBVIOUS THAN AN ACROSS-THE-BOARD FIVE TO SEVEN PERCENTAGE POINT INCREASE AND MIGHT REDUCE SOME OF THE IMPACT ON GOVERNMENT DEFICITS. WE WOULD LIKE TO HAVE THE IDEAS IN ORDER TO BE ABLE TO OFFER THEM INFORMALLY TO THE FUND AT AN APPROPRIATE MOMENT IF THAT SHOULD BECOME DESIRABLE. VANCE

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